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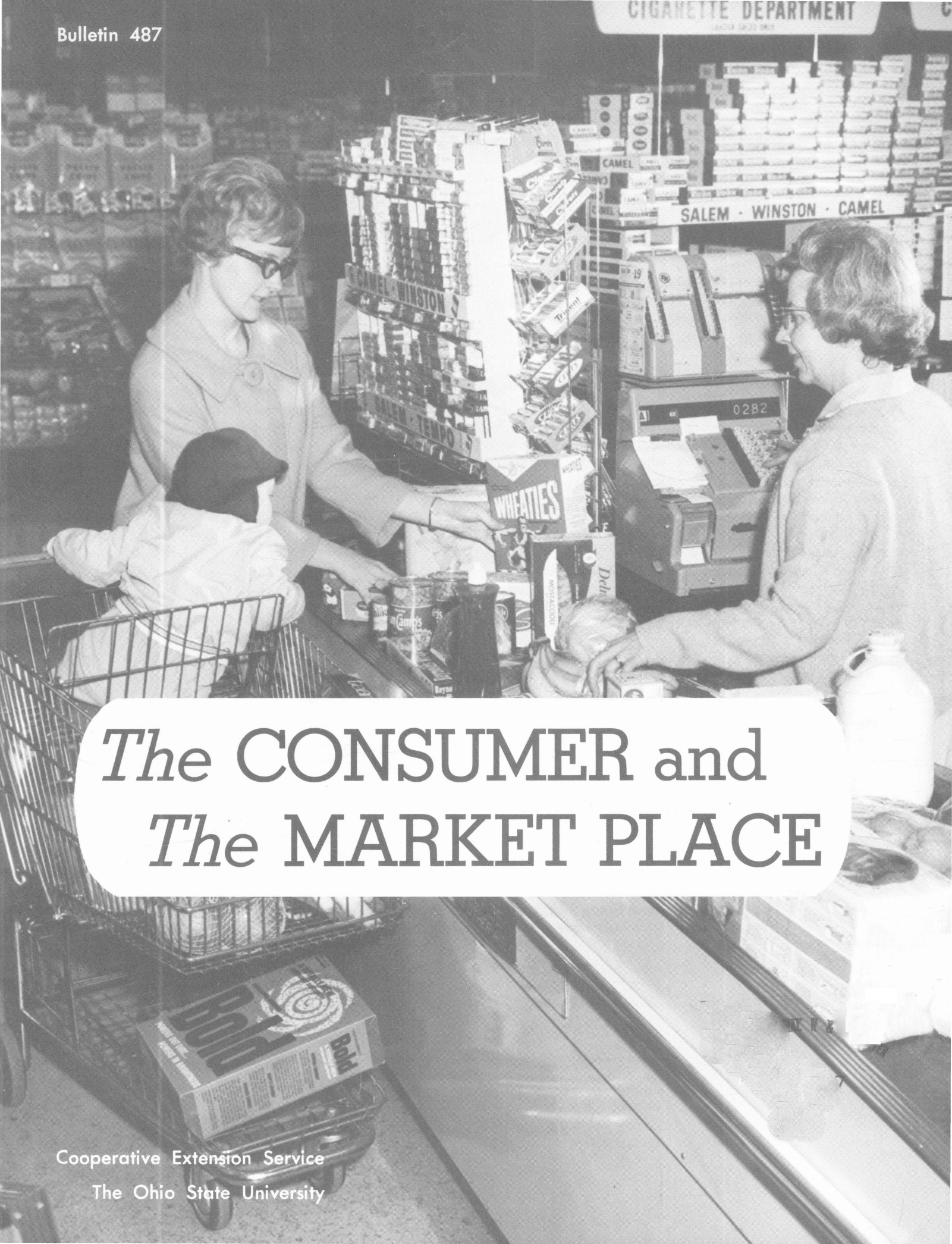

The CONSUMER and *The* MARKET PLACE

Cooperative Extension Service
The Ohio State University

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Acknowledgment

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The CONSUMER and *The* MARKET PLACE

What Makes Our Economy Tick?

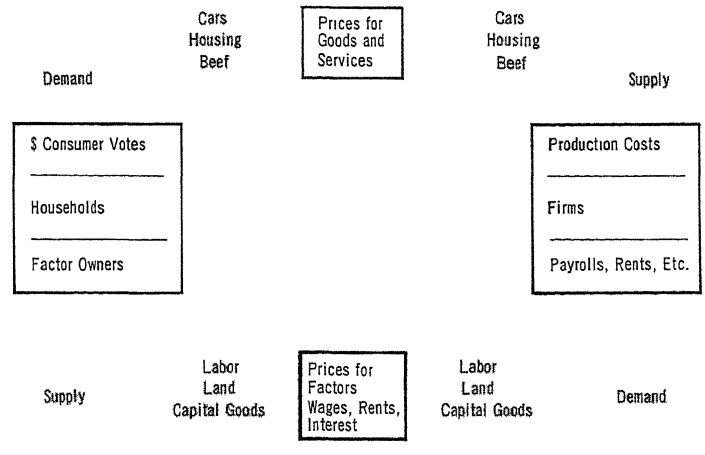
The $64 question? Just about. A simple explanation of how our American capitalistic society works is very difficult because of the complexities of the system. We have what Samuelson calls a "mixed" capitalistic enterprise system. Lipsey and Steiner compare our economic system to a machine with millions of moving parts—individuals, households, business firms, unions, etc. These parts do not all have the same purpose, and usually operate independently, yet fit together and usually work smoothly as a machine.[1]

CIRCULAR FLOW OF WEALTH

In reality, as in theory, *people* make our economy tick. In analyzing the economy, through the micro—or individual—approach, we start with households whose members have needs and wants for goods and services. They want their families to be fed, clothed, housed, entertained, healthy, secure, well educated, and well groomed. Thus, they want goods and services to achieve these goals. They have resources which vary in amount—income, wealth, time, and energy—for use in attempting to satisfy these wants. But most families do not have enough resources to satisfy all their wants, so they must make choices. This they do in the market places where they are offered innumerable ways to spend their money, time, and energy. Here is where household members respond to signals—market *prices*. For each given set of prices, household members will make a given set of choices. These choices are affected by family likes and dislikes, need, and the many other factors which relate to consumer behavior. As each family makes its choices, in total (together) consumers affect those prices.

Prices serve as signals to firms as to which goods they can produce at a profit. With technology and factor costs given, firms must decide which products to produce, how to produce them, and how much of what quality to supply. In making such decisions, firms too affect prices. They demand factors of production—land, labor, capital, and management; the quantities they need depend on how much they decide to produce, and this quantity depends on consumer demand. In turn, these demands will affect the prices of labor, managerial skill, raw materials, buildings, machinery, use of capital, land, and all other factors. The owners of these factors, or those who have the skills needed, respond to these factor prices and decide where to offer their services. These decisions determine the allocation of the supply of factors. Payments the firms make to the factor owners, then, provide them with income. Those who receive this income are the ones who have wants and needs for goods and services. And so we have completed the circle. This circular flow illustrates the mechanism that makes our economy tick as is shown in Figure 1.

FIGURE 1



Adapted from Samuelson, Paul G., *Economics*, New York, McGraw-Hill Book Co., 1961, p. 43.

The foregoing discussion describes the workings of our economy in a very elementary fashion, showing the flow in income from households to firms and from firms back

[1] Lipsey, Richard G., and Steiner, Peter O., *Economics*, New York, Harper and Row, 1966, p. 516.

to households. The real question, however, is, "How well is the system functioning?"

When firms and households pass on into the system, by spending, all the money they receive, there are neither injections into nor withdrawals from the system. Things are "status quo." Injections occur when households or firms have income that does not come about through spending by the other segment of the system. Withdrawals come about when there is income that is not passed on in the circular flow.

Injections come about through investment, exports, and government expenditures, while withdrawals result from savings, imports, and taxes.[2]

GROSS NATIONAL PRODUCT

To tell how well we are doing, we measure national income. By measuring the volume of goods and services produced, policy makers can tell whether the economy is moving smoothly, or if a crisis is in the making. Our economy has historically shown growth, but this growth has been interrupted by periods of recession and depression which affect human welfare, and periods of inflation which affect distribution of income and human welfare. The major aspects of economic policy are a stable price level, full employment, a satisfactory growth rate, and balance of payments in international trade. Economic policy is concerned with preventing both depression and inflation.

Inflation, which is a rising general level of prices, results when we spend beyond our ability to produce. Deflation or recession is essentially the opposite, a falling general level of prices.

The measure of national income generally used to help point out trouble spots is Gross National Product. This is the market value of all final goods and services produced in one year. GNP is made up of four major segments:

A. Personal consumption expenditures, which generally account for about two-thirds of all the goods produced each year.
   1. Durable goods
   2. Non-durable goods
   3. Services

B. Gross private domestic investment, which utilizes an average of 14 percent of the annual value of our GNP.
   1. New construction
   2. Producers' durable equipment
   3. Change in business inventories

C. Government (federal, state, and local) purchases of goods and services each year amounts to about 20 percent of the total GNP.

D. Net exports, or the excess of exports over imports, usually amounts to about one percent of our total net value of goods and services produced.

GNP does not measure how well off people are, for it does not include quantity of goods and services available per capita, but for the population as a whole. It does not include a measure of leisure time or of household production, and it does not allow for the ability of different goods and services to provide different results—$1 million for a bomber as compared to $1 million for a school or as compared to $1 million for candy bars. Also it does not account for differences in distribution of income among various population groups, nor does it account for price changes in relation to quantity.

[2] Ibid., p. 537.

ECONOMIC GROWTH

We are concerned with economic growth in our policies, rather than remaining in a static position. The rate of growth shown by changes in GNP from year to year serves as one indicator of growth. The rate of productivity, or output changes, is another indicator. But what factors determine whether or not the economy does grow? Basically, the general level of spending, which consists of government and consumer spending and investment. The level of spending determines output, employment, and income.

When everyone who is willing and able to work at the going wages can find a job in his field, we have full employment. Usually, unemployment at a level of 3 to 4 percent is considered as normal in a dynamic economy such as we have in the United States. The 3 to 4 percent includes those changing jobs as well as those unable to work because of health reasons and the unemployables. As the economy approaches full employment, inflation becomes more severe. Increased spending at full employment only increases the price level, since the quantity of goods produced has not kept pace with the amount of money. This is known as demand-pull inflation. Deflation, on the other hand, results in falling prices accompanied by lower levels of output and employment.

Therefore, it is the task of the policy makers to modify consumer spending and investment. Modification is promoted by regulation of taxes, adjusting the interest rate, fiscal policies, wage and price controls, or government spending. As indicated in the discussion of the circular flow of income, withdrawals from the flow would occur with high tax rates not balanced by government spending, and high interest rates—which would encourage savings and discourage credit buying—by business and consumers. These would discourage spending and are the kind of policy action taken in inflationary periods. Injections into the circular flow come about through investment and increased spending. These would come about through lower interest rates which would encourage investment rather than savings, and through public works programs. These are the kinds of policy actions taken in recession or depression periods of the business cycle. A crucial decision concerns not only what is the most appropriate action, but the timing of the action.

Thus, by adjusting the interest rates, tax rates, fiscal policies, wages, prices, and government spending to the economic climate, policy makers can level off the steepness of the peaks and valleys in the business cycle, or in the circular flow of income from household to business and back to household. This, simply, is how the economy ticks.

A Look at Some General Concepts

THE MARKET MECHANISM— HOW DOES IT WORK?

Since there are not enough resources to produce all the goods and services that consumers would like to have, a scarcity of resources is a "fact of life" in any economy. People must choose not only what to produce or not to produce, but also which resources to use. In a market economy such as ours, these decisions are the result of both the market and the political mechanism.

1. Demand-Supply Relation

Increased demand or decreased supply results in a shortage; decreased demand or increased supply brings about a surplus. Shortages or surpluses affect price—prices will fall with a surplus and rise with a shortage. Commodities become more profitable to produce as price increases for a given commodity, while a decrease in price results in less profit. Because of the profit motive, under most conditions, producers will be encouraged to increase production of goods whose prices have risen, and to cut back on those goods whose prices have fallen. The change in production will result in a change in demands for factors of production. Those factors used in making commodities being produced in greater quantity will be in greater demand, and their price too will increase. This change in the price of factors of production will result in a reallocation of resources, from declining industries to expanding ones.

Thus, changes in demand and supply set off a chain of market changes that bring about a reallocation of resources. Two groups affect such decisions—producers (manufacturers) and consumers, except in theoretically perfect competition in which case the consumer would be the sole decision maker.

WHAT IS DEMAND?

Let's look at this concept as it applies to food and the commodities families find on retail store shelves. Why is meat prepackaged? Why is sugar in one-or five-pound bags rather than 25-pound sacks? Why are fresh tomatoes available the year around? Why are there so many partially or fully prepared items for sale? Why is so much space devoted to cereals? Because somewhere there are enough people who want, and have the money for, these products—there is a demand for them. Enough people are willing to pay a price that will encourage someone else to produce the products.

Demand, then, is the total amount of a product that a certain group of consumers will purchase at a given time and at a given price. The law of demand states that, generally, people will buy more of a product at a low price than they will at a high price. When a person decides how much of an item he will buy at a certain price, he basically considers two factors—how much money he has to spend and how useful the product is to him. He'll likely be willing to pay less for the second item than for the first, still less for the third, and so on until he gets to the point where he won't buy any more at that time at the going price because additional items are no longer useful to him.

Demand changes as incomes change, as the population increases, and as people change their place of residence, where they work, or the kind of work they do. Demand will also change as people's attitudes and preferences change. For example, as people learn to eat different foods, the demand changes. Increased demand for Mozarella cheese used in pizza is an excellent example of this. Similarly, as people become concerned about health, demand changes. The development of substitute products, and the relative price of the substitute, can also change demand. The shift from the use of butter to margarine has shown how this can happen. Seasonal changes affect demand too. Iced tea is in demand on a hot summer day, but on an icy winter day few will want iced tea at any price.

Change in price only shifts the position on the demand curve; at a higher price, consumers buy less, at a lower one, more.

2. Price Elasticity

The question agricultural producers, manufacturers, and retailers are especially interested in is how much more, or less, consumers will purchase with a given change in price. This varies greatly from one product to another. With a small decrease in the price of strawberries, for example, you'll buy considerably more; whereas, it requires a relatively large price decline to cause you to buy many more potatoes. This concept is known as "price elasticity." In other words, price elasticity is a measure that indicates the percent change in the quantity of a product that consumers will buy, with given percent change in price, when all other factors remain the same.

In some instances there might be no change at all; consumers would buy the same quantity regardless of price, while in others, all of a product would be taken at the same price. Usually the response to price change will be somewhere in between.

If the percent change in quantity purchased is less than the percent change in price, then the response is "inelastic," or less than 1.0. On the other hand, if the percent change in quantity purchased is greater than the percent change in price, the response is "elastic," or greater than 1.0. If the percent change in quantity and price is the same, or 1.0, then we have "unitary elasticity."

How does this work? In the case of unitary elasticity, if price decreases 10 percent, consumers will buy 10 percent more of the commodity under consideration. By the same token, if price increases 10 percent, consumers will buy 10 percent less of the commodity. But, usually, a product is discussed as having either inelastic or elastic demand. Some examples will help illustrate this.

Food, in general, has an elasticity of 0.20, so demand is inelastic. This means that with a 10 percent decline in food prices consumers will purchase about 2 percent more than they currently are buying or vice versa. But this will vary for different foods. Strawberries, for example, have a rather elastic demand—about 1.5, which means that with a 10

percent price decline, customers will purchase 15 percent more berries. On the other hand, potatoes have a very inelastic demand, 0.20; families use nearly the same amount of potatoes, regardless of price.

The following charts and tables show what happens.

FIGURE 2

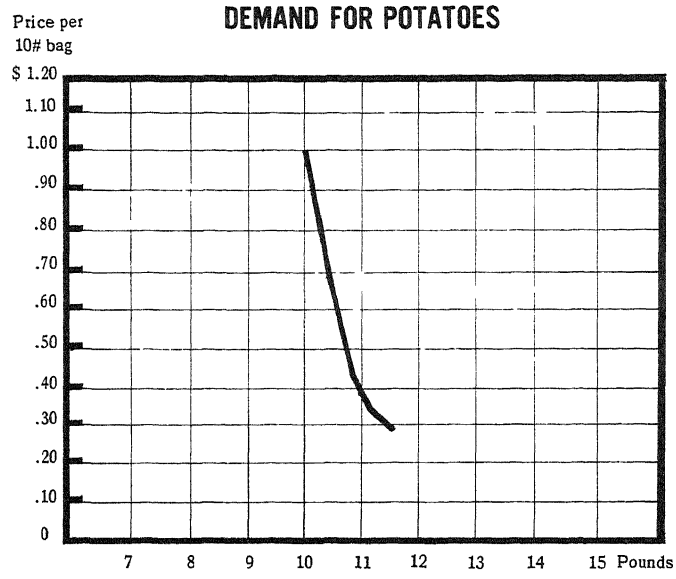


Table 1. Demand for Potatoes

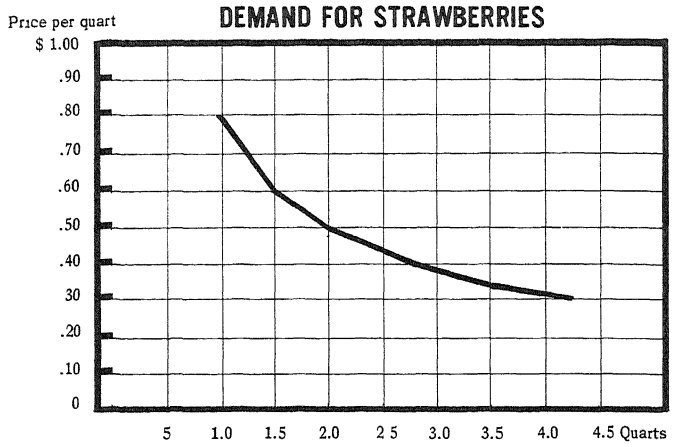
Price Per 10-Pound Bag	Quantity in Pounds	Total Revenue
$1.00	10.0	$1.00
.95	10.1	.96
.90	10.2	.92
.85	10.3	.87
.80	10.4	.83
.75	10.5	.79
.70	10.6	.74
.65	10.8	.70
.60	11.0	.66
.55	11.2	.62
.50	11.4	.57
.45	11.6	.52
.40	11.9	.48
.35	12.2	.43
.30	12.8	.38

In our example, it would take more than a 60 percent decline in the price of potatoes to encourage customers who usually buy 10 pounds at 10 cents a pound to buy two more pounds. The demand curve is nearly vertical, which illustrates inelastic demand.

Table 2. Demand for Strawberries

Price Per Quart	Number Quarts	Total Revenue
$ .80	1.0	$ .80
.75	1.1	.82
.70	1.2	.84
.65	1.3	.85
.60	1.5	.90
.55	1.7	.93
.50	2.0	1.00
.45	2.3	1.03
.40	2.7	1.08
.35	3.3	1.15
.30	4.2	1.26

FIGURE 3



In this example, if customers will buy one quart of strawberries at 80 cents, cutting the price to 50 cents per quart will cause them to take two quarts, and spend more total money. This illustrates what happens with an elastic demand. There are very few agricultural products that have an elastic demand. Most are relatively inelastic, or have less total revenue with a price decrease.

What determines the degree of elasticity of a commodity? The number of other products that may be substituted for the product under consideration is very important. Many other fruits and other dessert items can be substituted easily for strawberries. Products with several substitutes usually have more elastic demand. On the other hand, there are very few substitutes for potatoes. Thus, products with a few good substitutes generally have a more inelastic demand.

As the number of uses for a product increases, elasticity becomes greater. Products considered as luxuries rather than necessities have great elasticity. Products have a more elastic demand when they are new than after they have become accepted household items.

The way in which people react affects price elasticity. People with high incomes will purchase about the same amount of the commodities they want regardless of price. On the other hand, the lower income families will respond much more to price changes, and especially with items not considered as necessary.

3. Income Elasticity

Income elasticity is another concept important in understanding people's response to food prices. It is an expression of the percent change in quantity of a product consumers will purchase with a given change in income. Income elasticity for food ranges from 0.15 for high income families, to 0.25 or 0.30 for low income families. This means that for each $100 increase in income, families will spend from $15 to $30 of that pay raise on food. They will not necessarily buy more food, but more often will buy higher quality foods, and/or more marketing services. As an example, this concept has been extremely important in the demand for beef. As incomes have increased, families have purchased more beef, a more expensive meat than some of the other choices available.

4. Cross Elasticity

Still another concept of elasticity is important. That is cross elasticity. This concept explains changes in the quantity of one product consumers will purchase with a change in the price of another product. If the products complement each other, quantity purchased of one will decline with an increase in price of the other. For example, if the price of ice cream increases, the amount of chocolate topping purchased will decline. If the products are substitutes for each other, then a price increase for one will result in more of the other being purchased. As an example, if the price of round steak increases, consumers may substitute chicken and purchase more of that product.

Why is elasticity an important concept? It explains how consumers will react to different pricing conditions. When the price of a product changes, the quantity people will buy and the total amount spent on the product will change. This information is important to producers of agricultural products and to manufacturers as they make production plans. If they want to make a certain income, how much should they produce?

In the total revenue column on our examples of strawberries and potatoes, note that as the price increases, consumers will spend more total money for potatoes, although they buy fewer, while for strawberries they'll spend less total money when the price rises. In general, we can say that, with elastic demand, consumers will spend more money with a lower price, while, with an inelastic demand, they'll spend more with a higher price. Interpreted another way, in total, producers can expect to have higher gross receipts and probably higher net incomes for a short crop with an inelastic demand, as potatoes, while they can expect the same to occur for a large crop with an elastic demand, as strawberries. However, the same may not be true for the individual producer.

This concept is also important in planning marketing strategy. Advertising, promotions, and packaging, for example, will bring more favorable results for commodities with an elastic demand. An advertising program for select oranges is likely to be much more successful than one for supergrade onions, for example.

The elasticity concept is also important in market organization, in bargaining, and in developing government policy.

5. Supply

The concept of supply is closely related to that of demand. The law of supply states that *as price increases more of a product will be supplied to the market, and, conversely, as price declines a smaller amount of that product will be offered for sale.* The same principle of elasticity that was discussed in relation to demand applies to supply. This relationship indicates, for example, what percentage change occurs in farm prices with a production change of 1 percent.

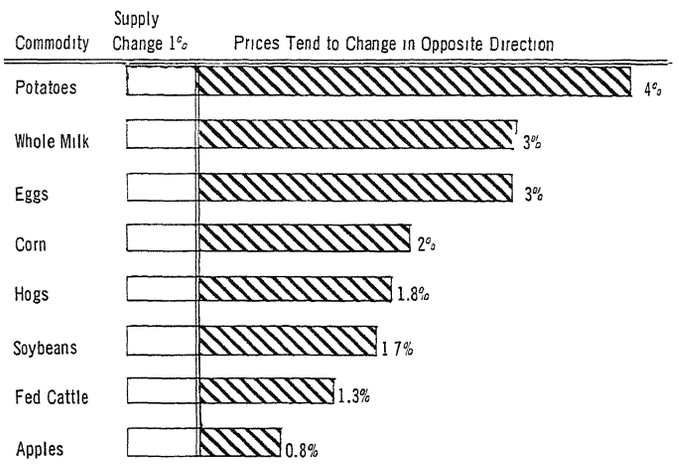
Measuring the effect of price on output is quite complicated for many agricultural commodities. Over the long-run, numerous factors affect price that are often overlooked by many people. These factors include: (1) changes in the general price level, (2) imperfect competition in marketing, (3) transportation developments and changing cost structures and competition between transportation methods, (4) technological developments in the science of agricultural production, and (5) cost of labor.

Production from one year to the next varies and is a major factor in determining supply. Weather, yields, and, sometimes, acreage harvested changes output of crops. Livestock output changes are related to reproduction and replacement periods. Government acreage allotment and price support programs tend to regulate supply for some commodities. Carryover stocks have the same effect on supply as do changes in production. Imports also have some influence on supply, although imports have trended downward from the early 1950's.

What effect does supply have on price to producers of agricultural products? Figure 4 shows estimates of response of prices for several commodities to changes in total supply (production plus stocks) from one year to another.

FIGURE 4

CHANGES IN SUPPLY AFFECT FARM PRICES



SOURCE: Barr, Wallace, "Factors Involved in Pricing of Farm Products."

For example, a 1 percent increase in the supply of potatoes, with other commodities remaining the same, tends to reduce potato prices to producers an average of about 4 percent, or vice versa. Apple prices, on the other hand, tend to change only 0.8 percent for each 1 percent change in supply. Generally, a change of 1 percent in supply for a commodity results in prices received by farmers changing more than 1 percent.

The foregoing discussion of supply-price relations is for short run (one year or a comparable time). Studies indicate that in the long run prices are much less flexible. If the supply of a commodity were reduced for a period of time, the price would not likely stay at a high level. Three major things would happen. One is that the higher price would cause consumers to shift to other products. Another is that synthetic products would be developed. And the third is that new producers would likely enter into production of the product because of improved income prospects.

How do farmers react to price changes? There seems to be a chain reaction taking place. The total amount of a product available affects prices received; the price received affects the quantity produced, and thus the price received. Judging these effects is difficult. Many feel that production is largely independent of price. With low prices, some farmers may increase production in an effort to maintain

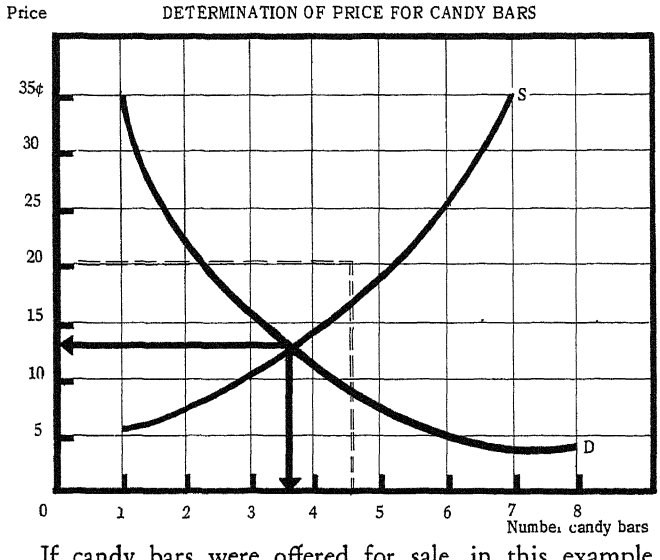
income. However, in total, increases or decreases in the price of a commodity are followed by opposite changes in the level of production sometime in the future.

In the case of manufacturing firms, supply can be adjusted rather quickly by either stepping up or cutting back the production line. This is why we seldom have a surplus of autos or washers or TV sets, but may at times have an excessive supply of agricultural commodities.

6. Price Determination

Now, how is price determined? *Basically, price is determined by the laws of supply and demand.* However, at times, it is difficult to see how this works in a market economy. This will also depend on the degree of competition in the market—the number of buyers and the number of sellers. But regardless of the variations, *price still is basically determined by how much of a product will be supplied at a given price, and how much consumers are willing to purchase at that price.* This concept is shown in Figure 5.

FIGURE 5



If candy bars were offered for sale, in this example, price would be 13 cents, and consumers would purchase 3½ candy bars. However, candy manufacturers might decide that they would like to make more candy bars, but at a higher price. They decide to supply 4½ candy bars at 20 cents each. Now, consumers say, "Wait a minute! At 20 cents, we only want two candy bars." But if the manufacturer is going to supply only two candy bars, he is willing to sell them at 8 cents each. And the consumer replies, "Well, if they're that low priced, we'll take 4½." So the supply of candy bars, and the number people are willing to buy go back to 3½ at 13 cents, where both the manufacturer and consumer can agree on a price.

If you've ever attended an auction and watched the interaction between the auctioneer and the bidders, you've watched price making in action. And that's basically how it happens even in the most complex market situation. Firms, generally, do not follow pricing principles as presented in textbooks, such as that just described. Rather, the firm, as stated in an earlier paragraph, sets price by margin-adding—cost plus profit—or some similar method, and then adjusts volume or output to the point where demand will take that output at that price.[3]

Ralph Alexander summarizes this rather well:

> "The final price of an article is not a simple thing arrived at as a result merely of the interaction of the forces in play at the point of sale and purchase. It is compounded of a whole system of interlocking price relationships reaching back through the retailer, the wholesaler, the manufacturer, and all other marketing agents who may have had a hand in the movement of the product to the point of ultimate sale. It is the final fruit of an elaborate price structure complicated by such conditioning and obscuring factors as quantity allowances, credit terms, delivery arrangements, and services rendered at each of the several states through which the product passes in its often devious and tortuous way to the point of final sale."[4]

Most families are concerned about the dollars they spend for food. Many families think they spend too much money for food. In this section we'll look at how families spend their food dollar, how this has changed in recent years, and some of the factors that have brought about such changes.

[3] Bain, Joe S., *Industrial Organization*, New York, John Wiley and Sons, Inc.,

[4] Alexander, Ralph S., "Marketing Contributions to Economics," in Robert O. Solo, Editor, *Economics and Public Interest*, New Brunswick, Rutgers University Press, 1955, pp. 71-72.

How Do People Spend Their Food Dollars?

REASONS FOR CONCERN

There are several reasons for concern over food expenditures. One very important reason appears to be a lack of understanding of what makes our economic system work, especially the interrelationship of supply, demand, and price.

Concern over food expenditures comes about naturally. Food is an item we must have; we purchase it more frequently than any other item required for family living. At the same time we would much rather be spending our money for a new color TV or a vacation trip. Though not consciously aware of it, we may resent the money we spend for food, even though we must have it.

Often, food is not "automatically" built into the family budget, even though it is a big part of regular expenditures. The family commits itself to regular rent or mortgage payments, car payments, installments of various types, and other consumer items. Members allow for hospitalization, insurance, and such. All these items of family living are usually paid for by check. Food, on the other hand, is usually paid for with cash. This cash often is what's left over after all the regular commitments have been made. And there may not be enough left to buy the favorite

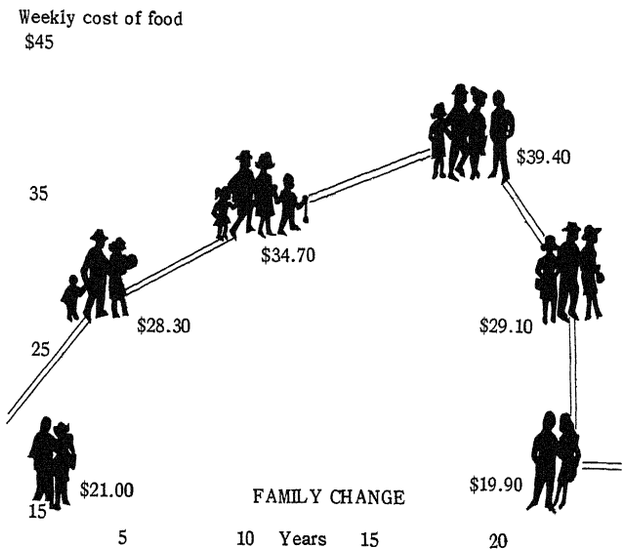
foods of different family members. Also, since food is paid for with cash, we are much more aware of how much we are spending for food.

FACTORS AFFECTING FAMILY FOOD EXPENDITURES

What families actually spend for food depends on many things. Income level makes a big difference. The lower income family will spend a much larger portion of its income for food than will the high income family, even though the higher income family will spend more total dollars. However, quantities of food will not vary much. Instead, the quality of food and amount of servicing will vary.

The size of the family and the ages of the members will cause considerable variation in both quantities and cost of food required. These first two factors are illustrated in Table 3 and Figure 6.

FIGURE 6



GROWING UP WITH THE FOOD BILL: The food bill is bound to grow along with the family. This is what it would cost to feed a family at home for one week, using prices for March 1966. The costs are based on USDA's moderate-cost food plan. There is no change in the quality of the food purchased as the family grows up; the only change shown is the cost of the increased quantities needed.

SOURCE: *Family Economics Review*, Agricultural Research Service, USDA, December, 1966, p. 26.

How much does the family entertain at home? Whether guests are friends, relatives, or the neighborhood gang of children, food cost will be higher when the family entertains to any extent. As an example, *Food Topics*, in a Grocery Store Sales Study showed that 10 percent of grocery store sales were for soft drinks and alcoholic beverages, and another 2 percent of expenditures were for potato chips, popcorn, and pretzels. This did not include all the other snack items.[5]

The "other" purchases that are not food, but that become part of the food bill simply because they are purchased at the same time as food, affect what families think they spend for food. The *Food Topics* survey referred to above, as well as other studies, show that about 20 percent of grocery store sales are for non-foods—cleaning and laundry supplies, paper products, health and beauty aids, pet foods, tobacco, and the other items that can be purchased in a food store.

Do family members eat part of their meals away from home? If so, this may result in slightly lower grocery bills, but a higher total food bill. Estimates are that one out of every four meals is eaten away from home—in restaurants, at drive-ins, in school or plant cafeterias, in hospitals. And estimates expect that one in three meals—or one meal each day—will be eaten away from home by 1975. These meals cost more than those prepared at home. Well over half the total value of food eaten away from home represents the cost of preparing and serving the food.

[5] *Food Topics*, New York, Conover-Mast Publications, Inc., Vol. 21, No. 9, September, 1966.

Table 3. Cost of Food at Home Estimated for Food Plans at Three Cost Levels, December 1966, U.S. Average.

Sex-age Groups[a]	Cost for one week			Cost for one month		
	Low-cost Plan	Moderate-cost Plan	Liberal Plan	Low-cost Plan	Moderate-cost Plan	Liberal Plan
FAMILIES	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
Family of 2:						
20 to 35 years[c]	15.70	20.80	24.20	67.90	90.30	104.80
55 to 75 years[c]	13.10	17.60	20.00	56.40	76.30	86.90
Family of 4:						
Preschool children[d]	23.00	30.40	35.20	99.40	131.80	152.30
School children[e]	26.50	35.20	41.00	114.40	152.50	177.50
INDIVIDUALS[f]						
Children, under 1 year	3.20	4.10	4.50	13.90	17.90	19.30
1 to 3 years	4.00	5.20	6.00	17.40	22.60	25.90
3 to 6 years	4.70	6.30	7.20	20.30	27.10	31.10
6 to 9 years	5.60	7.50	8.90	24.30	32.50	38.70
Girls, 9 to 12 years	6.40	8.60	9.60	27.90	37.20	41.60
12 to 15 years	7.10	9.50	11.00	30.50	41.10	47.50
15 to 20 years	7.40	9.60	10.90	32.00	41.80	47.30
Boys, 9 to 12 years	6.60	8.80	10.10	28.40	37.90	43.50
12 to 15 years	7.60	10.40	11.80	32.70	44.90	50.90
15 to 20 years	8.90	11.80	13.40	38.40	51.00	58.20
Women, 20 to 35 years	6.70	8.80	10.10	28.90	38.30	43.70
35 to 55 years	6.40	8.50	9.70	27.80	36.90	42.20
55 to 75 years	5.50	7.40	8.40	23.70	32.10	36.40
75 year and over	5.00	6.60	7.70	21.70	28.60	33.40
Pregnant	8.00	10.30	11.60	34.60	44.70	50.20
Nursing	9.20	11.90	13.20	39.80	51.40	57.00
Men, 20 to 35 years	7.60	10.10	11.90	32.80	43.80	51.60
35 to 55 years	7.00	9.40	10.90	30.50	40.80	47.20
55 to 75 years	6.40	8.60	9.80	27.60	37.30	42.60
75 years and over	6.00	8.30	9.50	25.80	36.00	41.10

[a] Estimates computed from quantities in food plans published in *Family Economics Review*, October 1964. Costs of the plans were first estimated by using average price per pound of each food group paid by nonfarm survey families at 3 income levels in 1955. These prices were adjusted to current levels by use of *Retail Food Prices by Cities*, released by the Bureau of Labor Statistics.

[b] The first age listed up to but not including the second age.

[c] Ten percent added for family size adjustment. For derivation of factors for adjustment, see *Family Food Plans and Food Costs*, USDA, HERR No. 20.

[d] Man and woman, 20 to 35 years; children 1 to 3 and 3 to 6 years.

[e] Man and women, 20 to 35 years; child 6 to 9, and boy 9 to 12 years.

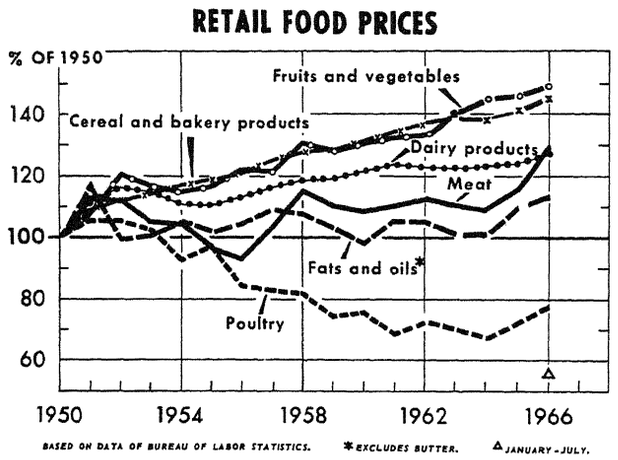
[f] Costs given for persons in families of 4. For other size families, adjust thus: 1-person, add 20 percent, 2-person, add 10 percent; 3-person, add 5 percent, 5-person, subtract 5 percent; 6-or-more person, substract 10 percent.

SOURCE: *Family Economics Review*, Agricultural Research Service, USDA, March, 1967, p. 10.

The form in which food is purchased will also affect the total food bill, although not as much as one might think. As families become more involved in community affairs, the homemaker becomes one of the more than a third who are employed away from home, and as new technologies are developed, consumers are likely to use more of the "convenience" foods. What is a convenience food? Generally, it is described as one that has had part or all of the preparation, ordinarily done in the home, added prior to the time it reaches the home. Vegetables are washed, perhaps canned or frozen, meat or cheese is sliced, cake ingredients are measured and blended, bread is baked, dessert is ready to serve.

In a U. S. Department of Agriculture's study, costs of 158 convenience items and their counterparts prepared at home were compared. The researchers found that with an expenditure of $100, $2 could be saved by using the convenience foods we use in the largest quantity—instant coffee, frozen orange juice, frozen and canned peas and spinach, and others. Granted, some cost more—like baked goods and TV dinners—but sales volume is not as high for some of those higher cost items. And when the value of the homemaker's time is considered, some of the more expensive convenience items become less costly. For example, the homemaker can earn 4 cents per hour if she makes her own French fried potatoes. Yes, many of the "convenience" foods cost more than their home-prepared counterparts, but when the family purchases them, it is in essence, employing a maid. It is substituting capital for labor. Some of these trends show up in the changes in retail prices for food groups shown in Figure 7.[6]

FIGURE 7



HOW MUCH DO FAMILIES SPEND FOR FOOD?

What do families actually spend and what do they buy? Table 4 gives us a good picture not only of current food expenditures per person, but also of disposable income (income after taxes) and the percent of income spent for food. Note that the portion of income required for food in 1947-49 was almost 25 percent, while in 1966 it was just over 18 percent, even though the number of dollars required to purchase the 1966 market basket increased about $150. If we were willing to purchase the same kinds and types of foods we did in 1947-49, we'd spend even less than the 18.1 percent of our income we spent in 1966.

[6] *Comparative Costs to Consumers of Convenience Foods and Home-Prepared Foods*, Economic Research Service, USDA, Marketing Research Report No. 609, June, 1963.

Table 4. Disposable Personal Income and Food Expenditures. (Average for Selected Periods and Annual, 1960-1966).

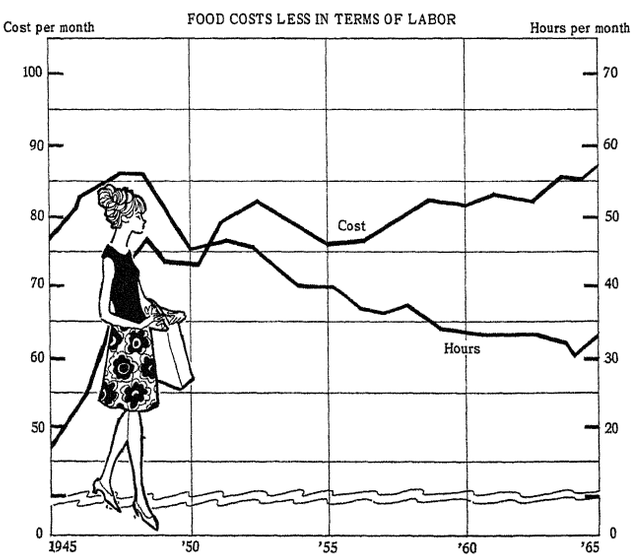
	Disposable Personal Income (dollars)	Expenditures for Food: Actual (dollars)	Expenditures for Food: Proportion of Disposable Income (percent)
1947-49	$1,244	$306	24.6
1950-54	1,504	337	22.4
1955-59	1,789	370	20.7
1960	1,937	388	20.0
1961	1,983	392	19.8
1962	2,064	398	19.3
1963	2,136	404	18.9
1964	2,273	418	18.4
1965	2,411	439	18.2
1966	2,568	464	18.1

SOURCE: *Marketing and Transportation Situation*, United States Department of Agriculture, February, 1966, and *National Food Situation*, United States Department of Agriculture, February, 1967.

This same idea can be expressed in another way; the number of hours consumers must work to earn a market basket of food is less than in the past. Today, as shown in Figure 8, the average worker spends about 4 working days each month earning enough to buy his family's food. Twenty years ago it took him 5 days. Again, the market basket has changed in this time, with higher quality foods, and more items partially or fully prepared.

The data shown in Table 4 are for U. S. averages. Various studies show what actual families spend for food. In the Survey of Consumer Expenditures made jointly by the U. S. Bureau of Labor Statistics and the U. S. Department of Agriculture, the average non-farm family spent $21 for food prepared at home the week preceding the interview.

FIGURE 8



Tabel 5. Expenditures for Food Prepared at Home by Non-Farm Families and Single Consumers, 1961-62

Item	All Families	Income Before Taxes: Under $5,000	$5,000-9,999	$10,000 and Over	Family Size: 1 or 2	3 or 4	5 or more
			Food Purchased in a Week				
Expenditure Per Family	$21.17	$14.72	$24.39	$29.87	$14.00	$24.39	$30.40
Expenditure Per Person	6.62	5.89	6.78	7.66	8.24	6.76	5.07

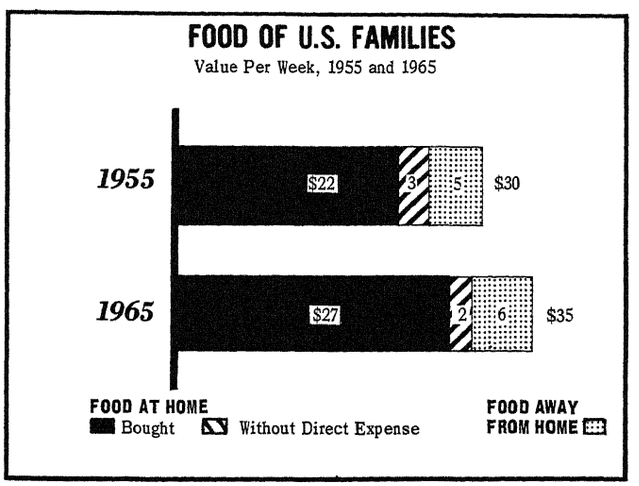
SOURCE: *Family Economics Review*, USDA, March, 1966, p. 5.

Note that the over $10,000 before-taxes family spent twice as much for food eaten at home, on the average, as those with incomes under $5,000. While part of this difference is due to somewhat larger families with over $10,000 incomes, note that they also spent nearly $2 more per person than did those with income under $5,000.

This study also bears out the fact that the larger the family, the bigger the food bill, while on the other hand the smaller the family, the greater the amount spent for food per person. This is due, in part, to economies of scale when buying for more people. But another reason is that the larger families, with more expenses and lower income per person, also often must budget more closely than the smaller family.

The U. S. Department of Agriculture has completed a nationwide food consumption study. Figure 9 compares 1965 results with those from a similar study in 1955. The average money value of all food used by U. S. households, both at home and away from home, was $35 a week in 1965, up 17 percent from the $30 spent in 1955. Food used

FIGURE 9

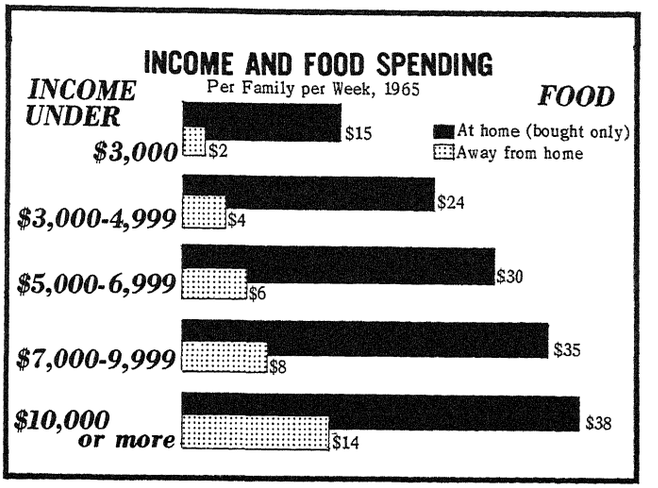


at home was valued at $29 per week, up 15 percent from 1955's $25 value. The amount used for meals and snacks away from home increased 28 percent, from $5 to $6 per week. The Bureau of Labor Statistics index of prices for food used at home in cities rose 13 percent during this period, prices of food away from home, 28 percent.[7]

[7] Clark, Faith, "Changing Patterns of Family Food Spending," a talk given at the 44th Annual Agricultural Outlook Conference, Washington, D.C., November 16, 1966.

Figure 10 points out the importance of income as a factor affecting family food expenditures. Dollar outlay for food eaten away from home increases sharply as income rises. In 1965, only 12 percent of food expenditures at the lowest income level was for food eaten away from home, while the over $10,000 level used 27 percent of their food expenditures for meals and snacks away from home.

FIGURE 10



Dr. Marguerite Burk emphasizes this relationship between income and food consumption when she says:

"(1) The quantity of purchased foods consumed per person varies much more with level of income among rural families than does the quantity of all foods, which includes home produced supplies, and (2) the value of food marketing services per person bought with food, both in retail stores and in eating places, varies with level of income two to three times as much as the quantity of food **per se** consumed among families within each urbanization category." [8]

HOW DO FAMILIES SPEND THEIR FOOD DOLLARS?

As far as quantities go, we turn to annual consumption data to develop an idea of the vastness of the amount of food carried into a home. For a family of four this amounts to almost three tons each year. (See Table 6).

Table 6. Annual Consumption of Various Food Groups, Per Capita and for a Family of Four, 1965.

Food Group	Per Capita (pounds)	Family of Four (pounds)
Meat, poultry, fish	203	813
Eggs (numbers)	308	1232
Dairy products	373	1492
Fats and oils	44	178
Fruits	157	638
Vegetables	207	829
Potatoes and sweet potatoes	102	407
Beans, peas, and nuts	16	66
Flour and cereal products	147	588
Sugars and other sweets	112	447
Coffee, tea, cocoa	15	60
Total Food	1417	5668

SOURCE: *U. S. Food Consumption, Sources of Data and Trends, 1909-63, Supplement for 1965*, Economic Research Service, USDA, Statistical Bulletin No. 364, p. 5.

[8] Burk, Marguerite C., "Relationship Between Income and Food" *Journal of Farm Economics*, Volume 4, February, 1962, p. 122.

To determine the amounts families spent for these various food groups, by income levels, we turn to a study of consumer expenditures conducted by the U. S. Department of Labor (See Table 7). Note that for some product expenditures increase and then decrease as income rises.

Table 7. Weekly Consumer Expenditures for Food Items, 1960-61. (All Non-Farm Families and Single Consumers).

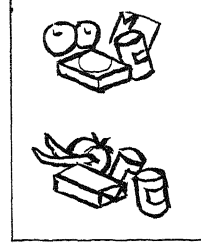
Item	Family Income Before Taxes					
	Under $3,000	$3,000-5,000	$5,000-7,500	$ 7,500-10,000	$10,000-15,000	$15,000 and over
CEREALS	$0.74	$0.95	$1.06	$1.08	$1.07	$0.92
Flour	.23	.20	.18	.16	.13	.11
Mixes	.08	.16	.23	.25	.27	.22
Cold Cereals	.14	.25	.30	.32	.33	.30
BAKED GOODS	.96	1.61	2.07	2.37	2.63	2.75
MEAT & POULTRY	3.17	5.30	6.77	7.80	8.94	9.79
Beef steaks	.32	.65	.96	1.25	1.69	2.02
Beef roasts	.24	.51	.79	.94	1.20	1.59
Pork	.46	.78	.96	1.02	1.09	.92
Bacon	.26	.38	.41	.47	.46	.39
Ham	.11	.21	.27	.33	.38	.40
Poultry	.57	.78	.87	.99	1.09	1.23
Cold Cuts and franks	.31	.65	.83	.96	.92	.79
SEAFOOD	.36	.53	.67	.65	.50	.35
DAIRY PRODUCTS	2.72	3.65	3.96	3.33	2.35	1.75
Whole Milk	1.78	2.25	2.40	1.83	1.19	.85
Evaporated, condensed, dry milk	.26	.28	.23	.23	.18	.15
Ice cream, sherbet	.26	.45	.51	.44	.30	.21
Cheese	.29	.47	.53	.56	.45	.33
FRUIT:						
All fresh	.54	.77	.94	.97	.78	.58
Apples	.11	.19	.23	.21	.16	.12
Bananas	.14	.19	.22	.21	.15	.11
Citrus	.20	.23	.31	.33	.29	.23
Frozen	.02	.03	.05	.06	.03	.02
Canned	.31	.34	.39	.41	.31	24.
Dried	.03	.04	.05	.06	.08	.07
Juices	.37	.49	.57	.50	.37	.25
VEGETABLES:						
All fresh	.85	1.06	1.30	1.24	.93	.66
Potatoes	.26	.29	.33	.29	.22	.16
Frozen	.16	.20	.25	.23	.17	.11
Canned	.45	.47	.47	.41	.31	.18
OTHER FOODS:						
Eggs	.53	.74	.84	.89	.94	.98
Fats and oils	.58	.86	1.04	1.16	1.22	1.17
Butter	.14	.22	.31	.38	.45	.51
Margarine	.14	.19	.21	.23	.21	.19
Soups	.14	.25	.32	.35	.38	.38
Prepared Dishes	.25	.53	.73	.89	.96	1.05
Sugars & sweets	.46	.71	.81	.90	.94	.88
BEVERAGES	.92	1.16	1.35	1.36	1.13	.83

SOURCE: Expenditure Patterns of the American Family, published by the National Industrial Conference Board, 1965.

With other products, expenditures continue to increase as income goes up. Many of these products have built-in maid services, as baked goods and prepared dishes.

A study of consumption and expenditures for food will point up changes that have occurred in the past few years in consumption of various food groups. Per capita consumption of different kinds of foods has shifted substantially since 1949. As shown in Figure 11, beef has gone up markedly; pork has gone down. Dry milk has gone up, fluid milk down. Poultry has gone up phenominally. Canned and frozen fruits and vegetables are up, fresh down.

FIGURE 11



REPRESENTATIVE FOODS	1949 LB.	1964 LB.	DIRECTION OF CHANGE
Apples, fresh	25	22	↘
Citrus, fresh	48	26	↘
Potatoes	110	99	↘
Pork	68	65	↘
Whole milk	296	274	↘
Beef	64	100	↗
Broilers	7	27	↗
Dry milk	3	6	↗
FOOD IN DIFFERENT FORMS			
FRUITS			
Fresh	123	89	↘
Dried	4	3	↘
Canned	20	23	↗
Frozen	4	7	↗
VEGETABLES			
Fresh	116	99	↘
Canned	39	44	↗
Frozen	3	12	↗

These changes are the result of increased per capita income, changes in physical activity, more knowledge about nutrition, and better quality products, plus numerous other factors .

CHANGE AFFECTS FAMILIES

Changes in the price of food as well as the other items in family living are of concern to many different groups. Families, of course, are concerned about such changes, especially in relation to income changes, because of the influence of such changes on family spending plans. Marketing organizations and manufacturers are concerned particularly with the interrelationship of price changes as they affect shifts in what people buy, as well as quantities. These changes are the basis for adjustments in many wage contracts, for alimony payments, for trusts, guardianships, determination of welfare payments, and so on.

Knowledge of and provisions for such changes provide for allowances in case prices do change relative to what they were at the time the agreement was written. While some escalator clauses provide only for upward price movement, others allow for both an upward and a downward movement.

CONSUMER PRICE INDEX

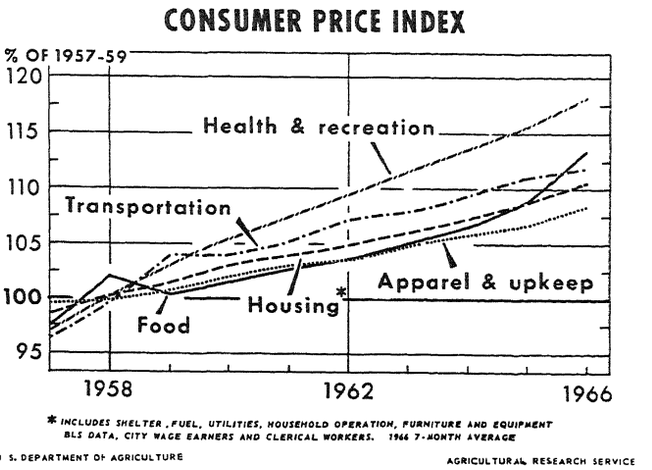
How are such changes measured? By the Consumer Price Index. This is compiled monthly by the Bureau of Labor Statistics in the U. S. Department of Labor. The Consumer Price Index gives us a picture of the change for about 400 items (food included) that are typical of purchases of urban wage earners and clerical worker families and of single workers. The BLS takes periodic surveys, the

last in 1960-61, to determine just how these families spread their spending among the market basket items. Each item is then weighted according to the amount spent on it.

The Index is broken down into several major groupings, such as food, housing, and transportation. The changes in the cost of this "market basket," then are expressed as index numbers. The average cost during the base period of three years is set at 100. The current base period is 1957-59. For instance, an index of 110 means that the price for the market basket has gone up 10 percent since 1957-59. What the family could buy with $10 in the base period now requires $11. Of course, the percentage change can also be figured from times other than the base period.[9]

Figure 12 indicates what these changes have been since 1957-59. Note that *services* that families buy, such as health and recreation, and transportation have shown much more change in this period than have the *goods* like food, clothing, and housing.

FIGURE 12



How Does Marketing Fit into the Picture?

WHAT IS MARKETING?

Marketing helps to facilitate the circular flow of income as it is described in the section on how the economic system works. How? First, let's look at just what marketing is. Marketing has been defined as follows:

> "Marketing is the process in a society by which the demand structure for economic goods and services is anticipated or enlarged and satisfied through the conception, promotion, exchange, and physical distribution of such goods and services."[10]

The marketing system for goods and services, then, is the upper part of the circular flow chart on Page 3. Marketing is not only the actual physical distribution of the good or service. It is also determining what consumers will purchase; the research, development, and introduction of products to meet those needs; and all the selling activities involved in satisfying the wants and needs of consumers. Marketing also includes the exchange of goods and services for consumers' dollar votes. The market place is where much of the exchange of information between consumer and producer or firm takes place, through the price-making mechanism described in an earlier section.

HOW MUCH DOES MARKETING COST?

How much does it cost to have the marketing system as we know it today? In 1965, the cost of getting food from the farmer to the consumer was $48 billion. Nearly 5 million people were required to do the job of getting the raw farm product, valued at about $25 billion, into the form, at the place, and at the time that 195 million consumers wanted it. Thus, the cost of marketing was about two-thirds of the total $73 million consumers paid for the food they purchased.[11]

[9] *The Consumer Price Index, A Short Description,* Bureau of Labor Statistics, U. S. Department of Labor, 1964.
[10] *Statement of the Philosophy of Marketing of the Marketing Faculty, The Ohio State University,* College of Commerce and Administration, O.S.U., 1964, p. 2.
[11] O. P. Blaich and L. F. Herrman, "Perspectives on Farm Product Marketing," *Agricultural Markets in Change,* Agricultural Economic Report No. 95 USDA, 1966, pp.5-7.

There are those who feel this is too much, but is it? Generally, high marketing costs in relation to retail prices are characteristic of highly industrialized and urbanized countries, such as the U. S. On the other hand, largely agricultural economies typically have low marketing costs relative to retail prices. The people in these economies produce, process, and consume most of their production. From 50 to 80 percent of the population lives on farms in these countries. So, in a general way, marketing costs are a reflection of a country's economy and stage of development. Unless a return to a less progressive economy is desired, marketing costs should be accepted as a part of economic development. However, this does not mean that we should not continually search for ways to reduce costs and/or to develop a more efficient marketing system.

The completely primitive society has no marketing costs, and thus no inefficiencies in marketing. As the economy of a nation develops and standards of living increase, smaller proportions of income are spent for food products as they come from the farm, and greater proportions are used for more and better marketing services. Instead of buying wheat or flour and making bread at home, consumers buy bread, delivered fresh daily, that is enriched with minerals and vitamins and already baked, sliced, wrapped. The homemaker feels this way of obtaining bread for family meals is more economical than making it at home, or she would bake bread at home. That is, she feels it is more economical in terms of costs of money, time, and energy.

MARKETING COST FACTS

High marketing costs reflect, to a large extent, changes that have taken place in our economy in the production and marketing of food products. These increased costs indicate some of the progressive improvements in our standard of living that have occurred in recent years.

What kind of changes? First, there has been a marked change in the location of our food production. The com-

bination of specialization in agriculture and urbanization of the population has lengthened the distance—figuratively as well as literally—between producer and consumer. The costs of moving foods from their respective areas of production to consumers are high when compared to the cost of moving all of them from nearby farms as we did in earlier years. However, these products are generally being produced where it costs less to produce them. As a result, the cost to the consumer is actually less in many instances by having the products come from low-production-cost areas, even though the marketing costs are higher than if the products were produced in areas near the market. If all food were to be grown in local areas in an effort to keep marketing costs low, many consumers would not be able to buy some products, because production costs and the retail price would be higher than presently. Also, it would be physically impossible to produce all the food needs for a large urban area on the nearby available land.

A second change that has pushed up marketing costs is the result of technological advances in food preservation and marketing of perishable products. Practically all foods are available fresh, or in a form very like the fresh product, throughout the year. These changes, though demanded and accepted by consumers as essential parts of the marketing system, often, though not always, increase costs and the share of the consumer's dollar going for marketing.

A third group of reasons why marketing costs are high comes from the consumption rather than the production side of our economy. This has to do with activities that influence the form in which we now want our food before we buy and use it. Working homemakers with little time for food preparation, and families with more money to spend, have been demanding that food products be more convenient. In some cases, this involves better packaging; in others, it involves transferring the preparation from the home kitchen to the more efficient processing plant.

These and many other developments in the broad field of marketing all have a very important effect on costs; today's homemaker insists, through her actions when she makes her purchases, that her food be packaged in small quantities and in attractive containers, require a minimum of preparation time at home, and, at the same time, be wholesome and of uniform quality. All these conveniences increase marketing costs. These are the results of a progressive economy.

Consumers are most aware of marketing and costs of marketing at the retail level, for this is where they have direct contact with the marketing system. Questions are frequently raised about promotion practices and their costs. In this section we will look at some of these practices, reasons for them, and how the consumer can evaluate them.

Consumers and Marketing

ADVERTISING AND PROMOTION

First, it seems advisable to make some definitions. *Advertising* is the way a firm informs people about a product, a store, or a service; to tell them of its availability; and to create within them a desire to try that particular product, store, or service. Advertising does not include the related retail activities of promotion and merchandising. These are the methods actually used to make a sale, once consumer interest has been established. *Promotion* includes such things as special displays, banners, samples, introductory offers, coupon deals, stamps, and specials. *Merchandising* refers to the general store layout, product display, price policy, and service that is found in a store.

Why are there so many advertising, promotion, and merchandising activities in the food industry? The food business is an extremely competitive one. Each firm is interested in getting the food shopper into its store. As the firm plans its marketing strategy, it allows 1 to 3 percent of gross sales for advertising and promotion, in an effort to bring in shoppers. The feeling is that if shoppers come in, they will buy not only the advertised item, but other items as well. Since food shopping is recurring and happens more than once a week for most families, the retailer wants to keep families interested in his store. He realizes that about 70 percent of the shoppers shop more than one store.

Closely related to advertising is pricing policy. Price is often the basis upon which ads are developed, although a good ad will also contain much additional information. Brand name for identification, size of package, size and grade of fruit, weight and quality, grade of meat, suggestions for use, and many other items are commonly included in the advertisement. Understanding what all terms mean will help the food shopper to evaluate advertising.

PRICING POLICY

How are prices determined? There are about as many policies as there are food organizations. Overall pricing patterns are determined by comparing sales, cost of products, and expense of operation, and by determining what "margin" (difference between buying price and selling price) is needed for the income the firm desires. Margins are usually figured as a percentage of the sales dollar. Overall food store margins typically are around 17 to 18 percent. It would be easiest to take the same margin on all items in the store, but it's not that simple. Competition usually determines the highest price that can be charged.

In midwestern stores the margin for the grocery department averages around 15 to 16 percent; with about 20 percent for meat; and around 25 percent for produce. Some items may be sold at cost, while other items are sold at a margin above the average. Pricing is usually a case of trying to stay with or lower than competitor's prices and still have the final profit figure in the black column rather than the red. That final net profit runs between 1 and 2 percent of sales volume while return on investment is around 12

percent.[12] In fact, Alderson concluded after studying grocery competition in Philadelphia that the goal is to minimize the cost of appearing competitive to the consumer.[13]

SPECIALS, PRICES, AND CONSUMERS

Weekly and weekend "specials" have become a part of modern day food retailing, and are an important part of a firm's advertising program and pricing policy. In deciding which items to special, several factors are considered. Usually, it is an item in good supply. It must be an item which most food shoppers will want to buy. Each firm will try to outguess its competitors on items specialed, and at least meet their price and quality. Some specials are seasonal items, as turkey for Thanksgiving or ham for Easter. Some are seasonal because of production cycles, like asparagus in May and tangerines in December.

What do specials, as well as general pricing practices, mean to consumers? The three studies following point out that, in any case, with careful shopping, specials can offer a savings.

In Arizona, three supermarkets in the same retail community were studied to determine if the consumer could save money on supermarket purchases by shopping in certain stores on certain days of the week. Seventy-two frequently purchased items were included in the market basket that was compared. National brands as well as lower priced brands with assumed comparable quality were included. Selling prices were compared for the beginning of the week and at the end of the week.

The researchers made several inferences as a result of their findings: All of the stores had similar pricing policies. As for obtaining better prices, it made little difference, apparently, as to which day of the week was selected for shopping. Often, the weekend specials were not specials at all. By purchasing only lesser-known brands, as much as 12 percent could be saved, although the authors conceded that there might be some loss in quality. The authors concluded that shoppers would be better off shopping at those stores offering the best non-price policies, and in availing themselves of specials featured from time to time.[14]

However, Welsh, Thomas, and Marion found significant differences in pricing practices without the effect of specials between four of six supermarkets in Columbus, Ohio, but no difference between the other two of the six markets. They priced 64 of the items in the market basket used by the Agricultural Marketing Service to measure changes in the domestic food segment of the Consumer Price Index. Prices were checked early in the week for four weeks in order to reflect normal price structure without the influences of weekend specials. There were also significant variations among various departments in the stores. No firm was either highest or lowest priced for all products.[15]

[12] Oesterle, Eric C., and Downey, W. David, *Financial and Operating Standards for Supermarkets,* Chicago: National Association of Retail Grocers of the United States, 1965.

[13] Alderson, Wroe, "Administered Prices and Retail Grocery Advertising," *Journal of Advertising, March* 1963, pp. 2-6.

[14] Landgran, Donald A., "Pricing Practices of Food Supermarkets in Arizona," Arizona Business Bulletin, April 1963, pp. 2, 6. Reviewed in *Journal of Marketing,* October 1963.

[15] Welsh, Robert S., Thomas, Paul R., and Marion, B. W., "Pricing Policies Affect Food Basket Cost," *Economic Information* for Ohio Agriculture, No. 446, Ohio Cooperative Extension Service, April 1965, pp. 1, 3.

The Economic Research Service of the U. S. Department of Agriculture recently completed a study which indicated that specials offer a real savings to the food shopper. Enumerators checked prices on more than 250 food items twice each week for one year. They checked 30 retail food stores in Greensboro, North Carolina, picked because they were a cross section of supermarkets and smaller neighborhood superettes.

In analyzing the data collected, researchers found that if the homemaker shops just those food stores in one immediate area and takes advantage of weekend sales, plus generally thrifty buying, she can save about 6 percent of the family's weekly food bill.

Referring to the Food Consumption Study discussed earlier, if this six percent is applied to the $29 average weekly expenditures for food at home for the average family, this is a savings of $1.75 each week, or about $90 a year. And, if the homemaker had concentrated on the lowest-priced items in the neighborhood, she could have saved 10 percent each week. This would have cut the weekly average to a little over $26 a week, with an annual savings of around $150. The shopper would have had her savings and still had the same types of foods, though brands and quality may have varied.

What items are featured most? Meat, including poultry and fish, was the food item most frequently on sale. This is important because meat, poultry, and fish account for about one-third of the family's food bill each week. Among the meats on sale, chuck roast showed up most often. The food shopper could save, on the average, 16 to 17 cents a pound by buying chuck on a weekend sale day. Incidentally, far more items, meat as well as other foods, were available and sale priced on weekends than on other days.

Whole frying chickens ranked second as the meat most often featured at sale prices. Then down the line in order of decreasing frequency come ground beef, luncheon meat, salmon, tuna fish, chicken breasts, round steak, and pork chops. That's quite a variety to build meals around.

A check of one store alone showed round steak, turkey, and bacon all on sale the same weekend. The next weekend the same store featured sales on ham and canned beef stew.

After meats, the most often sale-priced items were vegetables, chiefly fresh; dairy products; fats and oils; fruit and vegetable juices; fresh and canned fruits; coffee and soft drinks. Sugar and sweets were almost never on sale.[16] [17]

OTHER PROMOTIONS

What about some of the other promotional activities carried on by food retailers? The use of trading stamps has been discussed frequently. From the firm's standpoint they are most effective if the firm is one of the first in the area to offer stamps. When most competitors also offer them, the stamps can be an additional cost of doing business, with little gain in sales. Sometimes, the firm is forced to give stamps just to maintain its business. There is no doubt that stamps have been a big factor in increasing business in some locations. If a firm does not give stamps, other

[16] "Entire Meals Planned on Sale Foods Are Good For Family, Fido and Finances," *The Farm Index,* Economic Research Service, USDA, April 1964, p. 22.

[17] "More Meat for Less Lettuce," *The Farm Index,* Economic Research Service, USDA, November, 1964, p. 30.

promotional devices (such as contests, awards of various kinds, or redemption of register tapes for a church charity) will be relied upon to induce people to do business with their particular store. Thus most retailers consider promotions as a business expense, not as something extra to be added on to the price structure.

Many stores indicate that stamps are a problem because they are expensive and because they tend to slow checkout procedures. However, most stores are reluctant to eliminate trading stamps lest business decline. Consumers like stamps, generally, or are indifferent to them, as Udell's study points out. He found that 90 percent of nearly 1500 subjects in four cities saved stamps. Women and lower-income families had more favorable attitudes toward trading stamps than other groups. Also, most of the respondents indicated little or no difference in prices between stores offering and not offering stamps.[18]

In regard to cost of stamps, a U. S. Department of Agriculture study indicates that customers may find that stamps are not an additional cost to them if they redeem all the stamps they get.[19]

Do in-store demonstrations, samples, and recipes have value? A recent Massachusetts study indicated that stores might well consider someone in the store (the meat department) who was well qualified to offer advice on selection and use of meats[20]

Many processors and manufacturers profitably sponsor in-store demonstrations for their products. These are based on the conviction that repeat sales will result from the trial purchase. Some shoppers appreciate the opportunity to sample, others would rather not be bothered.

All of these promotional efforts are aimed at one objective—getting the customer into the store, and then getting her to do all of her shopping there. Guides to developing promotional programs often come from studies of factors which influence a customer when selecting a food store. One of the most recent ones was done by Richard Skinner at the Ohio State University. He found these factors important in this order:

A Pleasant Shopping Experience
Prices
Social Influences
Near Other Services
Meats
Advertising
Location[21]

Remember that each customer is an individual, some liking one thing, some liking another. And each store manager has different ideas as to what is most important. This mix of store policies and customer desires results in some preferring one market, some another.[22]

Implications for Families

What does all this mean to families? All families have communication with the marketing system on an almost daily basis as they trade economic resources for goods and services. This system is based on the profit motive, basic to the private enterprise system on which the U. S. was founded. When family members enter the market place, they need to recognize that they do so with conflict of interests. They enter the system as sellers of land, labor, and capital goods, and expect to make a fair profit; but they also enter the system as buyers of goods and services and expect to purchase at the least cost. These two interests are not always compatible.

As the marketing system moves away from perfect competition, the profit motive is stronger. Government intervention has become increasingly prominent, especially in relation to control of monopoly, selling costs, pricing, and product differentiation. This has taken the form of various types of legislation, from anti-trust laws to consumer protection through inspection, labeling, and other education and service programs. Again, there may be a conflict of interest in what is good for society and what will make the economy more effective. Families need to consider the extent to which they wish to have these controls in the marketing system.

The marketing system provides many kinds of information to families in the form of labels, grades and standards, advertising, and comparisons. Families have a responsibility to learn how to make the best use possible of all sources of information as they pursue their buyer's role in the system.

The marketing system works in an intricate, yet relatively simple manner. Still many of our citizens do not understand how it works, nor do they attempt to understand it. Families have a responsibility to learn more about the system in which they participate, so that they may better communicate their wants and needs to the seller. He may then provide them with the goods and services that will help the family increase its satisfactions.

The marketing system plays a big role in the lives of all families. Families have a real responsibility in determining the kind of system in which they want to participate. And those who work with families can help them better understand the system, so that they may actively and intelligently play the role that is theirs.

[18] Udell, J. G., "Can Attitude Measurement Predict Consumer Behavior?" *Journal of Marketing*, Vol., 29, No. 4, October 1965, pp. 46-50.
[19] *Trading Stamps and Their Impact on Food Prices*, Agr. Marketing Service, USDA. Marketing Research Report No. 295, 1958.
[20] Doherty, Bernard J., "The Effect of Certain Retail Meat Merchandising Practices Upon Consumer Acceptance," Abstract of an unpublished Ph.D. dissertation, University of Masscahusetts, 1964.
[21] Skinner, Richard W., *Consumer Motivation in Supermarket Selection: A Factor Analysis*, Unpublished Ph.D. dissertation, O.S.U., 1966.
[22] Watkins, Ed. *Understanding Supermarkets*, a mimeo, Cooperative Extension Service, College of Agriculture and Home Economics, O.S.U.